

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 ISO-00 SP-02 AID-05 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 AGR-10 PA-02 PRS-01 L-03 /115 W

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R 190854Z JAN 76

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TO SECSTATE WASHDC 7790

INFO AMEMBASSY LONDON

AMEMBASSY NAIROBI

AMCONGEN ASMARA

UNCLAS SECTION 1 OF 2 ADDIS ABABA 0662

NAIROBI FOR AGATT

E.O. 11652: N/A

TAGS: EPAP ET

SUBJECT: ETHIOPIAN COFFEE SITUATION

REF: 75 ADDIS A-161

1. SUMMARY: ETHIOPIAN COFFEE CROP FOR THE CURRENT COFFEE YEAR APPEARS PROMISING. NEW COFFEE BEGAN ARRIVING ON THE ADDIS MARKET IN MID-DECEMBER, THREE TO FOUR WEEKS LATER THAN NORMAL. MOST OBSERVERS ARE PREDICTING EXPORTS OF 70 TO 75,000 TONS THIS COFFEE YEAR (OCTOBER 1975 THROUGH SEPTEMBER 1976) AND, WITH THE PRICE CURRENTLY AT 80 CENT/LB. FOB DJIBOUTI ON THE NEW YORK MARKET, ETHIOPIAN AUTHORITIES HOPE TO EARN US\$120 TO 130 MILLION FROM COFFEE EXPORTS. THE ROLE OF THE PRIVATE SECTOR IN COFFEE TRADING, PROCESSING AND EXPORTING ALTHOUGH DECREASED, IS STRONGER THAN WAS PROJECTED IN REFAIR. ETHIOPIAN AUTHORITIES ALSO EXPRESSED SATISFACTION WITH THE DRAFT THIRD INTERNATIONAL COFFEE AGREEMENT RECENTLY NEGOTIATED IN LONDON. END SUMMARY.

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2. EMBASSY OFFICER VISITED KAFFA REGION DECEMBER 16-19 TO EVALUATE COFFEE CROP IN THAT LEADING COFFEE REGION. ALL GOVERNMENT AND INDUSTRY COFFEE SOURCES IN JIMMA (REGIONAL CAPITAL) INDICATED CROP WILL EXCEED LAST YEAR'S AND THAT WHILE SOME PROBLEMS EXIST, THEY SHOULD BE MANAGEABLE. ALMOST ALL THE COFFEE FROM KAFFA IS EXPORTED TO THE USE AND SOLD ON NY MARKET AS "JIMMA" COFFEE. THE COFFEE TREES OBSERVED APPEARED TO BE IN VERY GOOD CONDITION AND IT WAS CLEAR THAT WEEDING AND OTHER NECESSARY WORK HAD BEEN DONE. WHILE SOME OF THE TREES HAD BEEN PICKED, MAJORITY OF CROP APPEARED TO STILL BE ON TREES.

3. EPMG OFFICIALS AND PRIVATE COFFEE TRADERS IN ADDIS ABABA ARE ESTIMATING TOTAL ETHIOPIAN COFFEE EXPORTS AT 70,000-75,000 TONS FOR THE CURRENT YEAR. IT IS EXPECTED THAT NEARLY 70 PERCENT OF THE EXPORTS WILL GO TO THE US. THE NEW CROP BEGAN ARRIVING IN ADDIS FROM KAFFA AND OTHER COFFEE REGIONS IN DECEMBER, SEVERAL WEEKS LATER THAN NORMAL. THE DELAY IN ARRIVALS IS ATTRIBUTED TO A COMBINATION OF LATE FLOWERING DUE TO PAST SUMMER WEATHER CONDITIONS AND SOME DIFFICULTIES IN SETTING UP NEW COFFEE FARMING, PROCESSING, AND MARKETING SYSTEMS IN LINE WITH CHANGED POLITICAL AND ECONOMIC GOALS OF NEW SOCIALIST GOVERNMENT. SOME DAYS HAVE SEEN AS MANY AS 120 ARRIVALS AND MOST OBSERVERS BELIEVE FLOW OF COFFEE SHOULD CONTINUE AT PRESENT RATE FOR TWO OR THREE MONTHS.

4. THE PRICE SITUATION REMAINS VERY FAVORABLE FOR ETHIOPIAN COFFEE. LOCAL EXPORTER REPORTED THAT BIDS FROM NEW YORK REACHED 82 US CENTS PER POUND LATE THIS WEEK AFTER CLIMBING STEADILY OVER THE PAST FEW WEEKS FROM THE PLATEAU OF 72 TO 73 CENTS/LB WHICH WAS REACHED FOLLOWING THE ANNOUNCEMENT OF THE BRAZIL FROST IN LATE JULY. LOCAL OBSERVERS FEEL THAT PRICES WILL CONTINUE TO RISE DUE TO LOW INVENTORIES IN THE US, SHORT SELLERS LEAVING THE MARKET, RECENT ANNOUNCEMENT OF RAIN DAMAGE TO COLUMBIAN CROP, THE CONTINUING EFFECTS OF THE BRAZILIAN FROST AND ANGOLA'S POLITICAL PROBLEMS.

5. IN THE KAFFA REGION, PRIVATE TRADERS AND GOVERNMENT AUTHORITIES WERE PARTICIPATING SIDE BY SIDE IN THE MARKET. EPMG DECLARED IN NOVEMBER THAT EACH FARMER COULD PICK AND MARKET TWO AND ONE-HALF UNCLASSIFIED

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HECTARES OF COFFEE ON HIS OWN ACCOUNT. ALL OTHER SMALL COFFEE HOLDINGS WOULD HAVE TO BE HARVESTED AND MARKETING THROUGH THE FARMERS' ASSOCIATIONS (COOPERATIVES). ALTHOUGH THESE ASSOCIATIONS ARE REASONABLY WELL ESTABLISHED IN THE AREA, THIS SEASON WILL REPRESENT THEIR FIRST EFFORT IN PICKING AND MARKETING CROPS SO SOME PROBLEMS WILL UNDOUBTEDLY BE ENCOUNTERED. 230 FORMERLY PRIVATE LARGE COFFEE PLANTATIONS IN KAFFA HAVE BEEN TAKEN OVER BY MINISTRY OF NATIONAL RESOURCES DEVELOPMENT AND RE-

ORGANIZED INTO NINE STATE FARMS. THE REGIONAL MNRD DIRECTOR STATED THAT STATE FARMS WOULD PRODUCE MORE COFFEE THAN PRIVATE FARMS HAD YIELDED LAST YEAR. MOST OBSERVERS FEEL THAT MNRD HAS DONE GOOD JOB OF REORGANIZING,, MAINTAINING AND THUS FAR PICKING AND MARKETING COFFEE. MNRD HAS HIRED 10,000 SEASONAL WORKERS TO HELP PICK THE COFFEE ON THEIR FARMS IN KAFFA AND MAY ADD MORE IF NEEDED. MNRD IS TRUCKING THE COFFEE IT PICKS IN KAFFA TO ADDIS FOR SALE TO EXPORTERS ON THE COFFEE MARKET.

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6. COFFEE SOURCES IN JIMMA REPORTED THAT COFFEE BERRY DISEASE WHICH FIRST ARRIVED IN ETHIOPIA 3 TO 4 YEARS AGO, PRESUMABLY FROM KENYA, HAS WORSENED THIS YEAR. THE COFFEE PRODUCTION AND PROCESSING AGENCY (FORMER COFFEE BOARD) IS SUPPORTING RESEARCH INTO THE PROBLEM AT THE JIMMA INSTITUTE OF AGRICULTURAL RESEARCH. OFFICIALS THERE REPORT CONSIDERABLE PROGRESS IN DEVELOPING CBD RESISTANT STRAINS OF COFFEE TREES. THE INSTITUTE IS ALSO CARRYING OUT EXTENSIVE PROGRAMS OF SPRAYING AND REPLANTING, ESPECIALLY IN THE MOST SEVERELY AFFECTED HIGHER ALTITUDE AREAS. IAR OFFICIALS EXPECT THAT THE NEXT THREE YEARS WILL SEE CONSIDERABLE PROGRESS IN SOLVING THE CBD PROBLEM. THE CROP CURRENTLY BEING HARVESTED IS SUFFICIENTLY GOOD THAT THE IMPACT OF CBD WILL NOT BE SEVERELY FELT THIS YEAR.

7. ROLE OF COFFEE BOARD OR COFFEE PRODUCTION AND PROCESSING AGENCY, (CPPA) AS IT HAS BEEN RENAMED, HAS EXPANDED CONSIDERABLY BEYOND INSPECTION AND PROMOTIONAL ACTIVITIES IT UNDERTOOK IN PAST YEARS. HOWEVER, CPPA HAS NOT TAKEN OVER ALL COFFEE TRADING OR EXPORTING AS HAD BEEN FEARED BY SOME OBSERVERS SIX MONTHS AGO. EPMG HAS DECIDED TO TAKE AN ACTIVE ROLE IN THE COFFEE INDUSTRY THROUGH THE CPPA BUT TO ALSO ALLOW THE PRIVATE SECTOR

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TO CONTINUE TO OPERATE. CPPA SET UP APPROXIMATELY 40 BUYING POSTS IN THE COFFEE REGIONS AND BEGAN COMPETING WITH PRIVATE COFFEE TRADERS IN EARLY JANUARY. PRIVATE FARMER AND FARMERS ASSOCIATIONS WILL HAVE THREE SALES OPTIONS: SELL THE COFFEE TO THE CPPA, SELL IT TO LOCAL PRIVATE TRADER, OR SHIP IT TO ADDIS TO SELL TO EXPORTER ON THE COFFEE AUCTION. PRIVATE CONNIE TRADERS IN KAFFA WERE NOT OVERLY CONCERNED ABOUT COMPETING WITH THE CPPA SINCE THEY FELT THEY COULD OFFER BETTER PRICES, SERVICE, CREDIT, AND MORE FLEXIBILITY THAN ANY GOVERNMENT AGENCY. CPPA ALSO PROCESSES COFFEE FOR EXPORT IN THE FORMER IAZARIDIS COFFEE PLANT IN ADDIS ABABA AND IS EXPORTING IN MAJOR QUANTITIES TO THE US. AT HAILI TFERA, ACTING GENERAL MANAGER OF CPPA, SAID THAT HIS ORGANIZATION'S GOAL IS TO HANDLE 40 TO 50 PERCENT OF ETHIOPIA'S COFFEE EXPORTS AND LEAVE REMAINDER FOR PRIVATE EXPORTERS.

EVEN THE 40 PERCENT FIGURE APPEARS AMBITIOUS FOR THIS TRANSITION YEAR ALTHOUGH AS THE NPPA'S BUYING CENTERS IN THE INTERIOR HAVE BEGUN FUNCTIONING, THE ORGANIZATION'S SUPPLY OF COFFEE IS INCREASING. MOST OF THE EXPORT MARKET WHICH THE CPPA IS ASSUMING THIS YEAR PREVIOUSLY BELONGED TO PRIVATE ETHIOPIAN AND FOREIGN TRADERS WHO FLED THE COUNTRY IN 1975. THUS MAJOR PRIVATE TRADERS WHO REMAIN IN THE COUNTRY SHOULD NOT EXPERIENCE A SUBSTANTIAL DECREASE IN COFFEE AVAILABLE TO THEM FOR EXPORT.

8. THUS FAR, TRANSPORT SYSTEM IS WORKING REASONABLY WELL, BOTH TRUCKS BETWEEN THE COFFEE PRODUCING AREAS AND THE ADDIS MARKET AND THE TRUCKS AND RAILROAD BETWEEN ADDIS AND THE PORTS OF ASSAB AND DJIBOUTI. PETROLEUM SUPPLIES ARE ADEQUATE AND EVEN DURING THE FUEL SHORTAGES OF MID-DECEMBER IN OUTLYING REGIONS, WHICH WAS RELATED TO ASSAB REFINERY DAMAGE, COFFEE TRUCKS RECEIVED PRIORITY STATUS FOR LIMITED FUEL THAT WAS AVAILABLE.

9. COFFEE EXPORT SUR-TAX REMAINS IN EFFECT AND WITH RISE IN PRICES, SURCHARGE HAS REACHED LEVEL OF ETH.\$64 PER 100 KILOGRAMS. IN CURRENT SELLER'S MARKET CONDITIONS, PRIVATE EXPORTERS ARE LESS CONCERNED WITH SUR-TAX IS PROVIDING CONSIDERABLE REVENUE TO THE GOVERNMENT TREASURY AND IT IS UNLIKELY THAT IT WILL BE ALTERED IN NEAR FUTURE.

10. AT HAILU SAID HIS AGENCY IS CONSCIOUSLY ATTEMPTING TO
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DIVERSITY CUSTOMERS BOTH IN TERMS OF DEVELOPING NON-US MARKETS
AND FINDING ADDITIONAL CLIENTS IN US TO AVOID OVERDEPENDENCE ON
FOLGERS, VAN EKRIS AND STOETT, AND OTHER LARGE AMERICAN BUYERS.
HAILQ TOLD EMBOFF HIS EXPORT MANAGER ATO ARAYA HAD LEFT JAN 7
FOR 6 WEEK TOUR OF EUROPE AND US TO MEET WITH EXISTING AND
POTENTIAL BUYERS. HAILU IS PLANNING TO VISIT US IN LATE
SPRING ONCE BULK OF THIS YEAR'S CROP IS EXPORTED. HAILU EX-
PRESSED DESIRE TO CONSULT WITH DEPARTMENT, USDA, AND OTHER US
OFFICIALS CONCERNED WITH COFFEE AS WELL AS WITH US BUYERS.
WE WILL REPORT FURTHER ON HIS TRAVEL PLANS AS THEY BECOME MORE
DEFINITE.

1. HAILQ EXPRESSED GENERAL APPROVAL OF THE NEW INTERNATIONAL
COFFEE AGREEMENT SAYING IT SHOULD BENEFIT ETHIOPIA. IT APPEARED
WHILE DISCUSSING THE MATTER WITH HAILU THAT HIS SATISFACTION
IS MORE RELATED TO THE CURRENT WORLD COFFEE SHORTAGES, AND
ETHIOPIA'S GOOD CROP PROJECTIONS, THAN THE SUBSTANCE OF THE AGREEMENT.

IT IS LESS CLEAR WHAT HIS VIEWS WOULD BE IF THE CURRENT
ENVIRONMENT, WHICH IS SO FAVORABLE TO ETHIOPIA, SHOULD CHANGE TO
ETHIOPIA'S DISADVANTAGE.
HUMMEL

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